



# WEEKLY ECONOMIC DIGEST

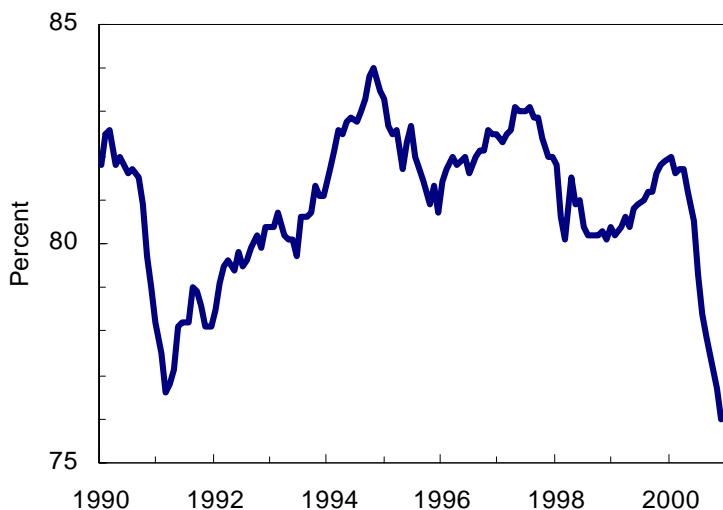
JOINT ECONOMIC COMMITTEE—DEMOCRATIC STAFF  
SENATOR JACK REED



June 19, 2001

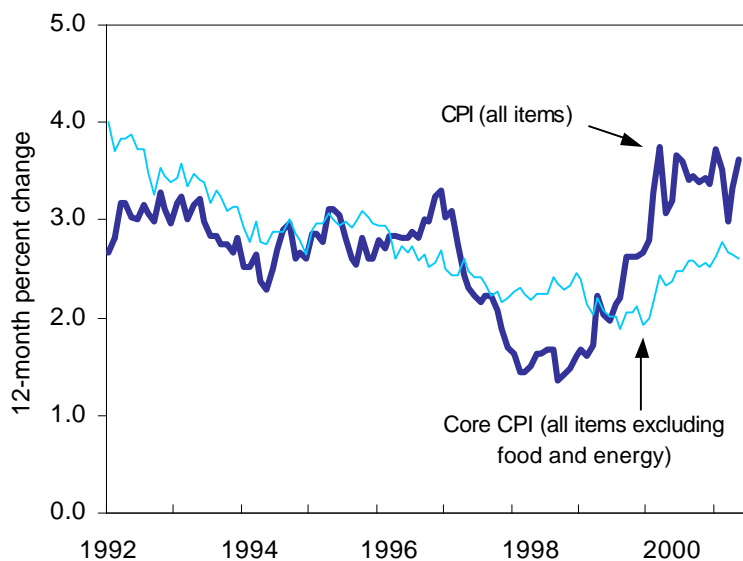
## Factory Slump, Slowing Sales Suggest Further Fed Cut Ahead

Capacity Utilization in Manufacturing



Source: Federal Reserve Board.

Consumer Price Inflation



Source: Bureau of Labor Statistics, U.S. Dept. of Labor.

- **Factory production falls sharply.** Manufacturing output dropped 0.7 percent in May, its eighth consecutive monthly decline. The falloff was fairly widespread across industries, with only motor vehicles and parts producers posting solid gains. The utilization of manufacturing capacity fell to 76 percent in May, its lowest rate since 1983.
- **Retail sales rise slightly.** Retail sales rose a very modest 0.1 percent in May. Even after excluding a sizeable decline in automobile purchases, the increase was only 0.3 percent. Consistent with these relatively slow sales, the University of Michigan's overall index of consumer sentiment slipped slightly in June, with consumers' impressions of current conditions unchanged from May's level.
- **Energy costs push up consumer prices.** The consumer price index (CPI) rose 0.4 percent in May, largely due to a second consecutive month of sharply rising energy prices. The core rate of inflation, which excludes the volatile prices of food and energy, declined slightly to 0.1 percent in May. However, the overall rate of inflation has exceeded the core rate for more than two years, holding down growth in the purchasing power of households' take-home pay.
- **The Fed is likely to loosen further.** The Fed's "Beige Book" reported weak conditions in all Federal Reserve Districts. With core inflation tame and economic conditions weak, the Federal Open Market Committee is likely to cut rates again when it meets next week.

<b>ECONOMY AT A GLANCE</b>	May	Apr	Mar	Feb	2001 Qtr 1	2000 Qtr 4	2000 Qtr 3	2000 Qtr 2	2000	1999
<b>Economic Activity</b>										
Real GDP (% growth)					1.3	1.0	2.2	5.6	5.0	4.2
Industrial Production (% growth)	-9.2	-7.0	-2.4	-4.7	-6.7	-0.9	3.5	7.9	5.6	4.2
Capacity Utilization(Level, %)	77.4	78.2	78.8	79.2	79.2	81.3	82.4	82.6	82.1	81.2
Civilian Unemployment Rate (Level, %)	4.4	4.5	4.3	4.2	4.2	4.0	4.0	4.0	4.0	4.2
Housing Starts (Thousands)		1609 <sup>*</sup>	1586	1623	1625	1539	1505	1586	1575	1647
Real Disposable Personal Income (% growth)		.8	5.7	3.3	2.3	0.7	2.6	3.7	2.8	3.2
Retail Sales (% growth)	0.9	18.0	-4.7	0.8	5.2	0.5	4.6	1.4	7.6	9.1
Personal Saving Rate (Level, %)		-7	-6	-8	-9	-0.7	-0.2	0.3	-0.1	2.2
<b>Inflation &amp; Productivity</b>										
CPI-U Inflation, All Items (% growth)	4.9	3.7	1.2	3.7	4.1	2.9	3.5	3.0	3.4	2.2
Core CPI-U Inflation (% growth)	1.2	2.4	2.4	3.7	3.2	2.4	2.5	2.7	2.4	2.1
Compensation per Hour (% growth)					4.6	3.5	3.8	4.2	4.3	3.2
Output per Hour (% growth)					-1.2	2.0	3.0	6.3	4.3	2.6
<b>Financial Markets</b>										
T-Bill Rate, 3-month (Level, %)	3.6	3.9	4.4	4.9	4.8	6.0	6.0	5.7	5.8	4.6
T-Note Rate, 10-years (Level, %)	5.4	5.1	4.9	5.1	5.1	5.6	5.9	6.2	6.0	5.6
Federal Funds Rate (Level, %)	4.2	4.8	5.3	5.5	5.6	6.5	6.5	6.3	6.2	5.0
Dow Jones Industrial Avg (Index Level)	11105	10235	10081	10775	10513	10586	10882	10703	10735	10465
<b>SOURCES:</b>	Bureau of Economic Analysis, US Department of Commerce; US Bureau of the Census; Board of Governors of the Federal Reserve System; Bureau of Labor Statistics, US Department of Labor; and, Haver Analytics.									
<b>NOTES:</b>	Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted <b>annual</b> rates. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. Compensation is the Employment Cost Index for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.									
	* Subject to revision this week.									

**Major Economic News Due This Week:**

- Housing Starts, May [Release: Tuesday, June 19, 2001]
- Leading Indicators, May [Release: Wednesday, June 20, 2001]
- International Trade, May [Release: Thursday, June 21, 2001]

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